

June 13, 1997

Secretary Robert E. Rubin
Department of the Treasury
15th and Pennsylvania Avenue
Washington, D.C. 20220

Dear Secretary Rubin:

The undersigned advocacy organizations collectively represent low-income people, the elderly, the disabled, minorities and other consumers who will be significantly affected by the implementation of EFT-99. This joint letter is to urge you to use the statutory requirement for electronic transfer of federal payments to improve the lives of America's most vulnerable citizens by bringing them into the banking system. You have the opportunity through the appropriate implementation of P.L. 104-134 to make a significant difference. The *wrong* decision by Treasury at this juncture may ease the transition to an electronic payment system for the U.S. Government, but it will do so at the cost of its citizens.

If done right, Mr. Secretary, EFT-99 will significantly foster the relationship between the unbanked federal recipients and the regulated, insured mainstream banking system. As you have recognized, bolstering banking relationships facilitates savings efforts, and increases the opportunities for other financial transactions between consumers and banks. The banks benefit from the new business. Consumers benefit from the lower cost and less abusive terms banks provide as compared to the unregulated alternative financial providers.

There are a number of specific decisions we urge Treasury to make in implementing rules for EFT-99:

- Only federally regulated and insured, depository institutions should be permitted to be the conduits for federal payments. This would *not* mean that recipients could not access their funds through an ATM or POS device at an alternative financial provider such as a money transmitter or a finance company — just that they would never be *required* to go to that alternative provider to access their money. Nor would it prevent recipients from transferring the funds on their own to a non-insured mutual funds account.
- Recipients who do not voluntarily participate in the electronic transfer program must be provided *individual* accounts at insured, depository institutions, which are affordable, reasonably accessible, include basic consumer protections and provide access to essential banking services. These accounts must provide least-

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Collateralization: This is a very important issue
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cost access to their federal entitlement; encourage savings; and foster financial relationships between the unbanked federal recipients and the mainstream financial institutions.

Treasury's use of "authorized agents" as alternative conduits of federal payments should be limited to those individuals and entities who have a fiduciary duty to the recipient. The words "other authorized agents" in the new law are only intended to apply to the types of recognized surrogates that are currently used as intermediaries for the receipt of benefits through the various federal programs, when the actual recipient cannot, for some reason, be the original designee of the federal payment. The consistent aspect among all of the types of intermediaries currently recognized in federal law is the fiduciary duty that is owed to the recipient. *Treasury should not deviate from this important principle by allowing agents to be conduits of federal payments who do not have a fiduciary duty to the recipients.*

Fringe bankers, such as check cashers, finance companies, and others doing business in low and moderate income communities have succeeded because of the vacuum created by the absence of banks from these communities. These fringe bankers do not reinvest their substantial profits back into the communities. The residents of these communities gain little benefit other than the specific service provided by the fringe bankers. If Treasury allows this non-regulated industry -- which continues without obligations to the community -- to operate as either "authorized agents," or subcontractors with banks for the purpose of receiving federal payments, the financial problems in the communities will not only continue to be ignored, but they would be exacerbated.

Treasury's use of alternative financial providers as conduits for the federal payments will be the U.S. imprimatur on the unregulated activities of these alternative providers. The government will be saying, in effect, that the federally insured and regulated banking system is only for those who can afford it. The poor would be *required* by the government to use alternative, unregulated providers with none of the benefits and protections furnished to consumers in the financial mainstream. Such a result should not be the consequence of this legislation.

We urge you to exercise your authority to ensure the proper resolution of these issues. We would like to meet with you at the earliest possible date to discuss our concerns in more detail. Thank you for your attention.

Sincerely,

ACORN

Center for Community Change

Consumer Federation of America

National Consumer Law Center

NETWORK: A Catholic Social Justice Lobby

Organization for A New Equality

Woodstock Institute

Jesuit Conference USA, National Office of Jesuit Social Ministries

United Auto Workers ✓

American Association for Retired Persons ✓

Consumer Action

National Community Reinvestment Coalition

National Peoples' Action

(Cost will never be enough to subsidize) // *Get these people to link with State EBT representatives*